

GAO

Testimony

Before the Subcommittee on Antitrust, Competition, and  
Business and Consumer Rights, Committee on the  
Judiciary, U.S. Senate

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For Release on Delivery  
Expected at 2:00 p.m.  
Tuesday, April 30, 2002

# GROUP PURCHASING ORGANIZATIONS

## Pilot Study Suggests Large Buying Groups Do Not Always Offer Hospitals Lower Prices

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Report Documentation Page		
<b>Report Date</b> 30APR2002	<b>Report Type</b> N/A	<b>Dates Covered (from... to)</b> - -
<b>Title and Subtitle</b> GROUP PURCHASING ORGANIZATIONS: Pilot Study Suggests Large Buying Groups Do Not Always Offer Hospitals Lower Prices	<b>Contract Number</b>	
	<b>Grant Number</b>	
	<b>Program Element Number</b>	
<b>Author(s)</b>	<b>Project Number</b>	
	<b>Task Number</b>	
	<b>Work Unit Number</b>	
<b>Performing Organization Name(s) and Address(es)</b> U.S. General Accounting Office P.O. Box 37050 Washington, D.C. 20013	<b>Performing Organization Report Number</b> GAO-02-690t	
<b>Sponsoring/Monitoring Agency Name(s) and Address(es)</b>	<b>Sponsor/Monitor's Acronym(s)</b>	
	<b>Sponsor/Monitor's Report Number(s)</b>	
<b>Distribution/Availability Statement</b> Approved for public release, distribution unlimited		
<b>Supplementary Notes</b>		
<b>Abstract</b> <p>We are pleased to have the opportunity to comment on the role of group purchasing organizations (GPO) in the marketplace for medical devices used in hospitals. Faced with persistent pressures to cut their costs, hospitals over the past two decades have increasingly relied on specialized private firms GPOs to keep the cost of supplies in check. Hospitals buy everything from sophisticated medical devices for example, cardiac defibrillators to commodities such as saline solution through GPO negotiated contracts. By pooling the purchases of their member hospitals, these specialized firms are intended to negotiate lower prices from vendors (manufacturers and distributors), which can benefit hospitals and, ultimately, consumers and payers of hospital care (such as insurers and employers). The price advantages of a GPO are expected to be greater for large GPOs, which negotiate on behalf of nearly 2,000 hospitals. To increase its leverage with vendors, a GPO often selects only certain manufacturers and vendors of a product to include in its catalog. According to GPOs, this selection of some vendors and exclusion of others reflects judgments about both product quality and price.</p>		
<b>Subject Terms</b>		
<b>Report Classification</b> unclassified	<b>Classification of this page</b> unclassified	

<b>Classification of Abstract</b> unclassified	<b>Limitation of Abstract</b> SAR
<b>Number of Pages</b> 32	

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Mr. Chairman and Members of the Subcommittee:

We are pleased to have the opportunity to comment on the role of group purchasing organizations (GPO) in the marketplace for medical devices used in hospitals. Faced with persistent pressures to cut their costs, hospitals over the past two decades have increasingly relied on specialized private firms—GPOs—to keep the cost of supplies in check. Hospitals buy everything from sophisticated medical devices—for example, cardiac defibrillators—to commodities such as saline solution through GPO-negotiated contracts. By pooling the purchases of their member hospitals, these specialized firms are intended to negotiate lower prices from vendors (manufacturers and distributors), which can benefit hospitals and, ultimately, consumers and payers of hospital care (such as insurers and employers). The price advantages of a GPO are expected to be greater for large GPOs, which negotiate on behalf of nearly 2,000 hospitals. To increase its leverage with vendors, a GPO often selects only certain manufacturers and vendors of a product to include in its catalog. According to GPOs, this selection of some vendors and exclusion of others reflects judgments about both product quality and price.

Some manufacturers—especially small manufacturers of medical devices—allege that contracting practices of some large GPOs have blocked their access to hospitals' purchasing decisionmakers. The manufacturers contend that these practices ultimately deny patients access to innovative or superior medical devices. These concerns have spurred calls for reexamining federal antitrust guidelines regarding GPOs. Issued in 1993, these guidelines articulate an antitrust enforcement policy that affords GPOs considerable latitude to merge and grow. The policy has permitted the creation and growth of the largest GPOs, formed in the 1990s.

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To assist the Subcommittee as it considers GPOs' effects on medical device purchasing, this statement provides an overview of the GPOs and their operations and summarizes results from our pilot study, which the Subcommittee requested, of a selected metropolitan area's hospital purchasing. This study was exploratory, testing the feasibility of collecting price and purchase data for medical devices, and will be followed by a broader study covering more areas, devices, GPOs, and hospitals.

Specifically, this statement details (1) the extent to which, in one market, hospitals buying pacemakers and safety needles saved money by using a GPO contract and (2) the extent to which these hospitals purchased pacemakers and needles from small manufacturers. To learn about GPO operations, we interviewed officials of 11 hospitals, four GPOs, nine medical device manufacturers, two industry associations, and the Department of Justice (DOJ). We established the feasibility of collecting price and purchase data on medical devices by obtaining such data on pacemakers and safety needles<sup>1</sup> for 2000 from 18 hospitals in one greater metropolitan area.<sup>2</sup> We chose to study pacemakers and safety needles because they are two types of medical devices that are commonly purchased by hospitals. Hospitals in our sample purchased 121 models of pacemakers and 196 models of safety needles. We compared GPO-negotiated prices to prices obtained by hospitals purchasing on their own. Because all these hospitals did not purchase each model, price comparisons were only possible for subsets of models. Taken together, comparisons involved contracts of eight GPOs, 23 models of safety needles, and 42 models of pacemakers. In many cases, more than one hospital purchased a particular device; in those cases, the price refers to the median price. We also used the purchase data to determine the extent to which these hospitals purchased these devices from small manufacturers. We did not independently verify the information in appendix I. Our work was conducted from October 2001 through April 2002 in accordance with generally accepted government auditing principles.

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<sup>1</sup>The term safety needle includes many different types of devices with features to reduce the risk of needlestick injuries for health care workers.

<sup>2</sup>Price data did not reflect manufacturers' rebates—which hospitals may receive regardless of whether they used a GPO contract or purchased items on their own—or other payments earned by hospitals purchasing with a GPO contract. In our statement, the term "hospitals" refers to single facilities as well as health systems with multiple hospitals. Seven hospitals reported safety needle data for 2001.

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In summary, for the hospitals that we studied, a hospital's use of a GPO contract did not guarantee that the hospital saved money: GPOs' prices were not always lower and were often higher than prices paid by hospitals negotiating with vendors directly. Specifically, we examined price savings with respect to three factors:

- Whether hospitals using GPO contracts got better prices than hospitals that did their own contracting varied widely by product model. For some pacemaker models, the hospitals using GPO contracts got considerably better prices—up to 26 percent lower than the hospitals not using a GPO contract. But for other models, hospitals using a GPO contract got prices that were much worse—up to 39 percent higher than hospitals not using a GPO contract. Similar results held for hospitals using large GPOs—those whose members purchase more than \$6 billion per year with their contracts—compared to hospitals buying on their own.
- Price savings differed by size of hospital. Large hospitals—those with more than 500 beds—often obtained lower prices on their own than by using a GPO. By contrast, small and medium-sized hospitals were more likely to obtain price savings using a GPO contract. But these hospitals' experiences also ranged widely: Some hospitals' GPO contract prices were much lower—and others much higher—than prices negotiated by hospitals on their own.
- Price savings had little relationship to the size of the GPO. Hospitals using contracts of large GPOs—those whose members purchase over \$6 billion per year with their contracts—did not necessarily obtain better prices than hospitals using smaller GPOs' contracts. This lack of consistent price savings is contrary to what would be expected for large GPOs.

In the metropolitan market we studied, hospitals bought pacemakers and safety needles predominantly from large manufacturers. We could not determine the extent to which hospitals' reliance on large manufacturers of these two devices reflected hospitals' independent preferences for large manufacturers' products or the effect of GPOs' contracting practices on hospitals' purchasing decisions, since almost all hospitals in our sample belonged to GPOs.

The data on hospital purchases in our study market raise questions about whether GPOs—and especially large GPOs—achieve price savings

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consistently, as expected. In addition, the limited number of purchases from small manufacturers in our study market suggests the need to examine data from additional markets, given small manufacturers' concerns that GPOs' practices inappropriately limit their access to potential purchasers. This additional information on price savings and GPO practices could inform an examination of GPOs' treatment under federal antitrust policy.

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## Background

Hospitals' budgets for medical devices and other goods are substantial. Many hospitals buy medical devices and other supplies through GPOs, which are generally owned by member hospitals and vary in size and scope of services. GPOs are expected to use volume purchasing as leverage in negotiating prices with vendors. In exchange for administrative services and the ability to sell through a GPO to its member hospitals, vendors pay administrative fees to a GPO based on the hospitals' purchases made using that GPO's contract. These fees, sanctioned under Medicare law, cover the GPO's costs; GPOs often distribute surplus fees to their owners. Federal antitrust guidelines help a GPO determine whether its business practices and market share are likely to be questioned as anticompetitive by enforcement agencies.

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## Hospitals and Medical Devices

According to an American Hospital Association (AHA) survey, roughly 4,900 nonfederal community hospitals<sup>3</sup> spent an estimated \$173 billion on nonlabor supplies, services, and capital in 2000. A significant share of hospitals' nonlabor costs include such goods as pharmaceuticals and medical devices. Hospitals buy these goods through their own purchasing departments, and many hospitals—in addition to contracting on their own with vendors—use GPO-negotiated contracts for at least some of their purchasing. Some hospitals have large or more sophisticated purchasing operations, but even hospitals belonging to large chains or health systems often do at least some purchasing through a GPO. The proportion of hospitals belonging to at least one GPO is substantial: estimates range from 68 percent to 98 percent.<sup>4</sup>

Medical devices that hospitals buy span a wide array of products, such as pacemakers, implantable defibrillators, and infusion pumps. Some device manufacturers are small companies that offer one product or a few closely related products while others are large firms that offer many, often unrelated, products. The Medical Device Manufacturers Association estimates that some devices become obsolete within 2 to 3 years—when the next generation of a particular device becomes available. Manufacturers market medical devices in medical journals and trade shows but place considerable value on having access to clinicians in hospitals as well as to hospital purchasing departments, which make the final buying decisions.

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## GPOs' Size, Structure, and Benefits

According to the Health Industry Group Purchasing Association, hundreds of GPOs operate today, but only about 30 negotiate sizeable contracts on behalf of their members. The emergence of these large GPOs in part stems from GPO mergers in the mid-1990s. Joint ventures and mergers created the two largest GPOs, Novation and Premier, which have annual purchases by member facilities using their contracts of \$17.6 billion and \$14 billion, respectively. Other GPOs in our pilot study have less than \$6 billion in

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<sup>3</sup>Community hospitals include all nonfederal short-term general and special hospitals whose facilities and services are available to the public. Most community hospitals have fewer than 200 beds while roughly 5 percent have over 500 beds.

<sup>4</sup>AHA survey data indicate that 68 percent of hospitals belonged to a GPO in 2000 while, according to the Health Industry Group Purchasing Association, 96 to 98 percent of hospitals belonged to a GPO.

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annual purchases by member facilities. (See appendix I for purchasing volumes of GPOs in our pilot study.) In addition to differences in size, GPOs differ in scope. Some negotiate national contracts and offer many services beyond purchasing, such as programs emphasizing the gains in safety and economic value resulting from standardization, or specialized software to help ensure that hospitals are not overcharged. Others serve regional or local hospital markets and provide fewer additional services.

GPOs differ in their corporate structures and their relationships with member hospitals. All large GPOs and many smaller GPOs are for-profit entities, some of which are owned by not-for-profit hospitals.<sup>5</sup> Other GPOs have shareholders independent of the member hospitals, which themselves do not necessarily hold an ownership stake. An example of a for-profit GPO owned by not-for-profit hospitals is Premier. Premier is owned by 203 not-for-profit health care organizations that operate approximately 900 hospitals. Other for-profit GPOs are owned by investors that are not member hospitals; for example, InSource is owned by MedAssets, a private purchasing and contract services company. Broadlane's owners consist of individual investors as well as for-profit and not-for-profit organizations including Tenet Healthcare, a nationwide provider of health care services.<sup>6</sup> Some GPOs are jointly owned. For example, both Novation and Healthcare Purchasing Partners International (HPPI) are owned by the same two networks of hospitals and physicians. Network members purchase using Novation contracts. However, non-network members purchase using HPPI contracts, which are negotiated by Novation. Some GPOs, such as HealthTrust, require that members do not belong to other GPOs. In addition, some GPOs, such as Novation and Amerinet, contract with manufacturers to supply products sold under the GPO's own "private-label" brand name. (See appendix I for a summary of characteristics of GPOs in our pilot.)

According to officials of GPOs and a GPO trade organization, benefits that GPOs provide to member hospitals<sup>7</sup> include, in addition to lower prices,

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<sup>5</sup>Hospital-owned GPOs may have nonowning members (affiliates), in addition to member hospitals that are shareholders.

<sup>6</sup>InSource is one of two GPOs owned by MedAssets. Broadlane began as a division of Tenet Healthcare, which is now one of its owners.

<sup>7</sup>In addition to hospitals, many GPOs include as members other health care organizations, such as nursing facilities. We focus on hospitals, which are key buyers in the medical device market.

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reduced costs due to hospitals being able to reduce the size of purchasing departments, as well as assistance with product-comparison analysis and standardization of products. Benefits that GPOs say they provide to manufacturers with which they contract include, in addition to access to hospital decisionmakers, cost savings due to reducing manufacturers' contracting, marketing, and sales activities. According to representatives of some manufacturers, many GPOs act as gatekeepers to hospital purchasing decisionmakers and charge the manufacturers administrative fees as the price of access to their member hospitals.

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### GPO Price Negotiation and Administrative Fees

In order to sell to hospitals through GPO contracts, vendors generally submit proposals to a GPO—in response to Requests for Proposals (RFP)—that are then evaluated. Based on these evaluations, the GPO enters into negotiations with select vendors to determine prices and, in some cases, administrative fees that vendors pay to the GPO. Hospitals then buy directly from the manufacturer for a price specified in a GPO contract. Often prices through a GPO-negotiated contract vary based on each hospital's volume of purchases and the extent to which the member hospital delivers on its "commitment" to buy an agreed-upon share of its purchases of a certain product from a particular manufacturer.<sup>8</sup> The more of a product that a hospital purchases, the lower the price per unit it may pay the manufacturer. A hospital's price may also vary depending upon the share of a product it purchases from a manufacturer. For example, a hospital that buys only 25 percent of its cardiac stents from one manufacturer may pay nearly three times more per stent than one that purchases all its stents from that manufacturer. Member hospitals may have an additional financial incentive to use the GPO contract. The extent to which a hospital buys using the GPO's contracts may affect the share of the administrative fees that the GPO returns to the hospital.

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<sup>8</sup>Volume and commitment are also important factors in manufacturers' contracts with hospitals that purchase without using a GPO contract.

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Although GPOs provide services to hospitals and are often organized by hospitals, many finance their operations primarily through the administrative fees paid by manufacturers and other vendors. These fees are typically calculated as a percentage of each hospital's purchases from a vendor. The Social Security Act, as amended in 1986, allows these fees, which would otherwise be considered 'kickbacks' or other illegal payments to the GPO.<sup>9</sup> Regulations establishing appropriate administrative fees, enforced by the Office of Inspector General in the Department of Health and Human Services, state that the fee structure must be disclosed in an agreement between the GPO and each participating member. The agreement must state that fees are to be 3 percent or less of the purchase price, or if not fixed at 3 percent or less, the amount or maximum amount that each vendor will pay. The GPO must also disclose in writing to each member, at least annually, the amount received from each vendor with respect to purchases made by or on behalf of the member. The fees tend to be higher on purchases by hospitals that buy most or all of an item from one vendor. In addition to covering their operating expenses with these fees, GPOs, with the approval of their boards of directors, often distribute surplus fees to member hospitals but may also use administrative fees to finance new ventures, such as electronic commerce, that are outside their core business. (See fig. 1.)

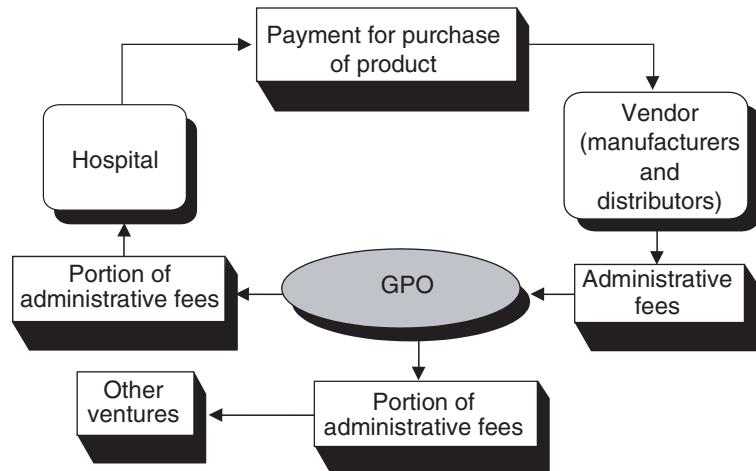
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<sup>9</sup>Any return of a portion of a purchaser's payment for the purpose of obtaining favorable treatment in connection with a contract may be considered a kickback.

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**Figure 1: Money Flows Related to Hospital Purchases Using a GPO**



Source: GAO interviews with GPOs and a GPO trade association.

The complex financial flows among vendors, GPOs, and hospitals have raised concerns that GPOs' interests may diverge from those of hospitals. According to some small manufacturers, GPOs have an incentive not to seek the lowest price because higher prices yield higher administrative fees. These manufacturers further suggest that GPOs, by relying on vendors' fees, become agents of manufacturers and assist them in limiting competition. By contrast, according to some GPOs, they act as an extension of hospitals and GPO members have input into the GPOs' product selections. GPOs acknowledge that a manufacturer dominant in a product line may contract with a GPO, or agree to a favorable contract, to preserve its market share and exclude competitors. However, GPOs assert that this selective contracting is part of a competitive process allowing the GPO to negotiate lower prices. GPOs also emphasize that participation in a GPO is voluntary, so the GPO must reflect what the hospitals want if it is to retain their business.

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## Antitrust

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Recognizing that joint purchasing arrangements among hospitals may enable members to achieve efficiencies that will benefit consumers but may, in some cases, pose risks of harming consumers by reducing competition, DOJ and the Federal Trade Commission (FTC) issued in 1993 a guideline to help GPOs and others gauge whether a particular GPO arrangement is likely to raise antitrust problems.<sup>10</sup> This guideline sets forth an “antitrust safety zone” for GPOs that meet a two-part test, under which the agencies, absent extraordinary circumstances, will not challenge the arrangement as anticompetitive. Essentially, the two-part test is as follows:

1. *Purchases through a GPO must account for less than 35 percent of the total sales of the product or service in question (such as pacemakers) in the relevant market.* This part of the test addresses whether the GPO accounts for such a large share of the purchases of the product or service that it can effectively exercise increased market power as a buyer. If the GPO’s buying power drives the price of the product or service below competitive levels, consumers could be harmed if suppliers respond by reducing output, quality, or innovation.
2. *The cost of purchases through a GPO by each member hospital that competes with other members must amount to less than 20 percent of each hospital’s total revenues.* This second part of the test looks at whether the GPO purchases constitute such a large share of the revenues of competing member hospitals that they could result in standardizing the hospitals’ costs enough to make it easier to fix or coordinate prices.<sup>11</sup>

However, the guideline states that a purchasing arrangement is not necessarily in violation of the antitrust laws simply because it falls outside the safety zone. Likewise, the guideline suggests that even a purchasing arrangement that falls within the safety zone might still raise antitrust concerns under “extraordinary circumstances.” Each arrangement has to be examined according to its particular facts. In this regard, the guideline also describes factors that reduce antitrust concerns with purchasing arrangements that fall outside the safety zone.

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<sup>10</sup>U.S. Department of Justice and the Federal Trade Commission, *Statements of Antitrust Enforcement Policy in Health Care*, Statement 7 (Washington, D.C.: August 1996).

<sup>11</sup>*Statements of Antitrust Enforcement Policy in Health Care*, Statement 7, p. 23.

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## Price Savings Not Obtained Consistently with GPO Contract and Savings Varied by Model and Size of Hospital

GPOs did not always obtain better prices for member hospitals. The advantage or disadvantage of GPO prices varied by the model purchased and size of hospital—but lacked a clear relationship to size of GPO. In our pilot study, we compared median GPO and median non-GPO prices for purchases by hospitals and found the following:

- Among hospitals of all sizes, hospitals using GPO-negotiated contracts to buy pacemakers and safety needles often paid more than hospitals negotiating on their own. This finding also held for hospitals using large GPOs, compared to hospitals negotiating on their own.
- Between hospitals of different sizes, small and medium-sized hospitals buying pacemakers were more likely than large hospitals to save money when using GPO-negotiated contracts.<sup>12</sup>

We also compared prices between large GPOs and smaller GPOs: Hospitals of all sizes using a large GPO's contracts almost always saved money on safety needles but often paid more for pacemakers, compared to those using smaller GPOs' contracts. Large GPOs would be expected to achieve price savings consistently. In all these comparisons, the price savings or additional cost that hospitals realized—for example, by using a GPO or by negotiating on their own—often varied widely from model to model.

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## Use of GPO Contract Often Did Not Yield Price Savings for Hospitals Buying Pacemakers and Safety Needles

Purchasing with GPO contracts did not ensure that hospitals saved money. Among hospitals of all sizes in our study market, those using GPO-negotiated contracts for pacemakers and safety needles often paid more than those negotiating on their own. The median GPO-negotiated price was higher than the median price hospitals paid on their own for all six safety needles models and over three-fifths of the 41 pacemaker models that could be compared.<sup>13</sup> Similarly, the use of a large GPO—one with an annual purchase volume greater than \$6 billion—did not guarantee price savings. Hospitals using contracts negotiated by a large GPO paid more

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<sup>12</sup>We compared GPO-negotiated prices to non-GPO prices for each size-category of hospital separately. For example, prices were compared for large hospitals using GPO contracts with large hospitals buying on their own.

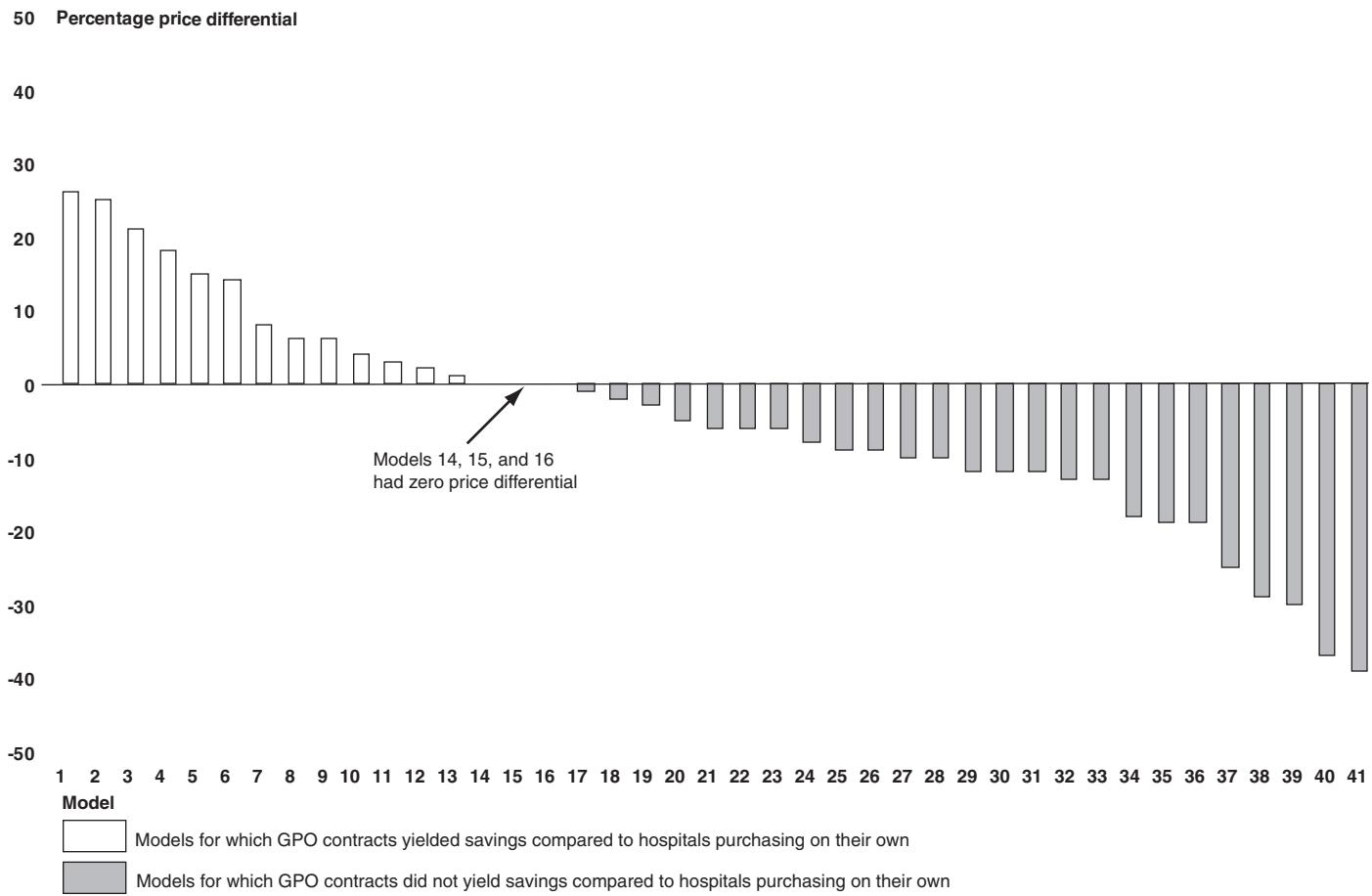
<sup>13</sup>Price comparisons include instances in which only the purchases of two or three hospitals could be included.

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than hospitals purchasing on their own for the six safety needle models and roughly half of the 22 pacemaker models that could be compared.

The price savings or additional costs that hospitals obtained using GPO-negotiated contracts varied by model. For different safety needle models, median GPO-negotiated prices exceeded prices negotiated by a hospital buying on its own by from 1 percent to 5 percent. For different pacemaker models, the variation was much greater: median GPO-negotiated prices ranged from 26 percent less to 39 percent more than the median price paid by hospitals purchasing on their own. (See fig. 2.)

**Figure 2: Differences between Median GPO Contract Prices and Median Non-GPO Contract Prices for 41 Pacemaker Models**



Note: Each bar refers to a different model of pacemaker. The length of the bar reflects the difference between the price paid by hospitals using GPO contracts and the price paid by hospitals not using GPO contracts to purchase the same model. Median prices were calculated and used in comparisons that included more than one GPO-negotiated price or hospital purchasing on its own.

Source: GAO survey of hospitals in a greater metropolitan area.

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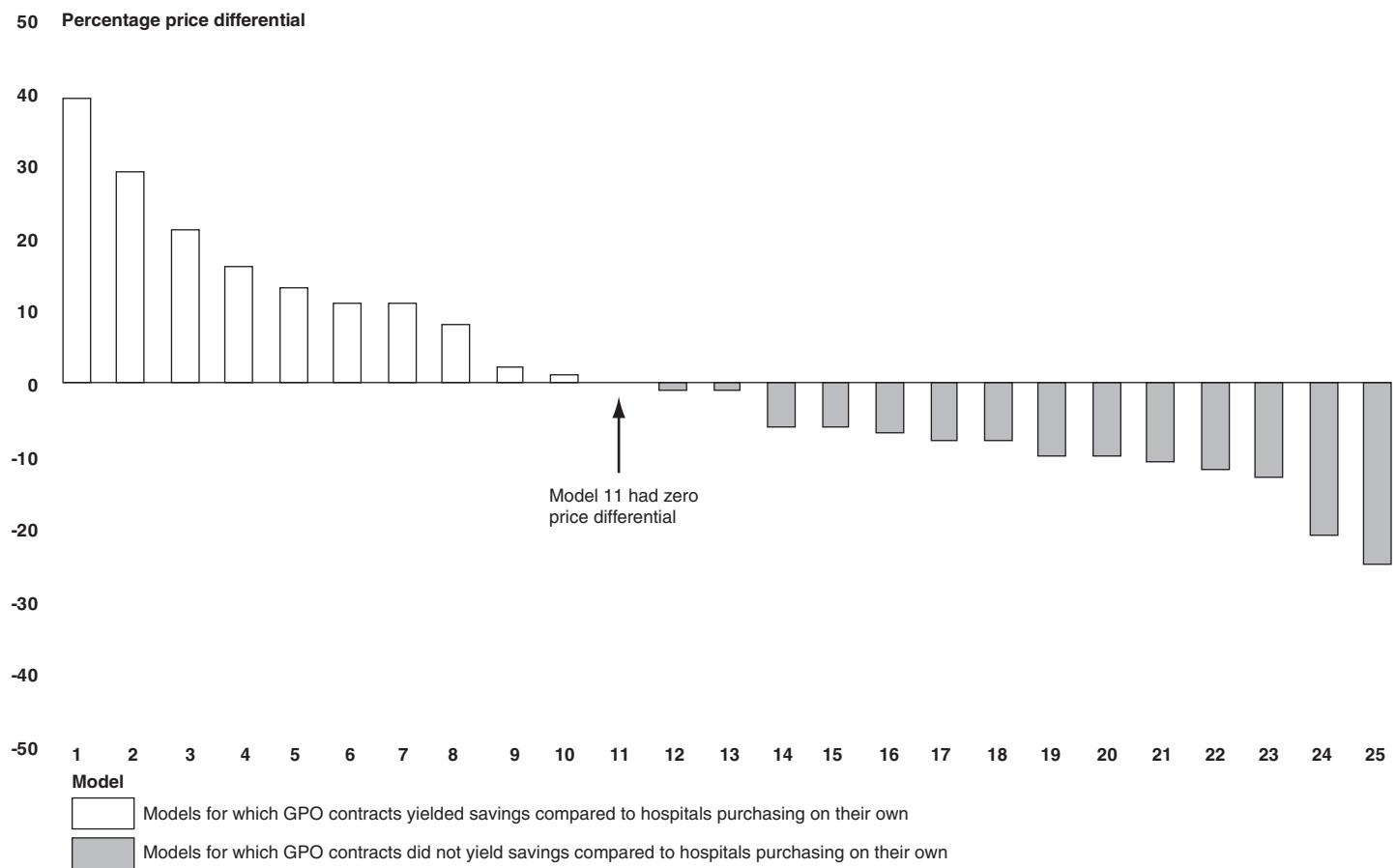
## Small and Medium-Sized Hospitals More Likely Than Large Hospitals to Realize Price Savings on Pacemakers with GPO Contract

We examined how hospitals of different sizes using GPOs fared relative to their peers purchasing pacemakers on their own and found that whether there were savings depended on the size of the hospital.<sup>14</sup> The 4 small hospitals (those with fewer than 200 beds) always did better with a GPO contract. The 11 medium-sized hospitals (those with 200 to 499 beds) did better with a GPO contract for 40 percent of the models (see fig. 3), and the 3 large hospitals rarely did better with a GPO contract—compared with their respective peers purchasing on their own (see fig. 4). Even though small hospitals buying on their own generally paid higher prices than the small hospitals using GPOs, the GPO-negotiated price was not much lower—from 1 to 6 percent—than what they paid on their own.

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<sup>14</sup>Comparisons by hospital-size for the purchase of safety needles were not possible. Several small and medium-sized hospitals did not purchase safety needles. Of those that did buy safety needles, the majority used GPO contracts for all their purchases or bought items for which there was no comparable purchase without a GPO contract.

**Figure 3: Differences between Median GPO Contract Prices and Median Non-GPO Contract Prices for 25 Pacemaker Models Purchased by Medium-Sized Hospitals**



Note: Each bar refers to a different model of pacemaker. The length of the bar reflects the difference between the price paid by medium-sized hospitals using GPO contracts and the price paid by medium-sized hospitals not using GPO contracts to purchase the same model. Medium-sized hospitals are hospitals with from 200 to 499 beds. Median prices were calculated and used in comparisons that included more than one GPO-negotiated price or hospital purchasing on its own.

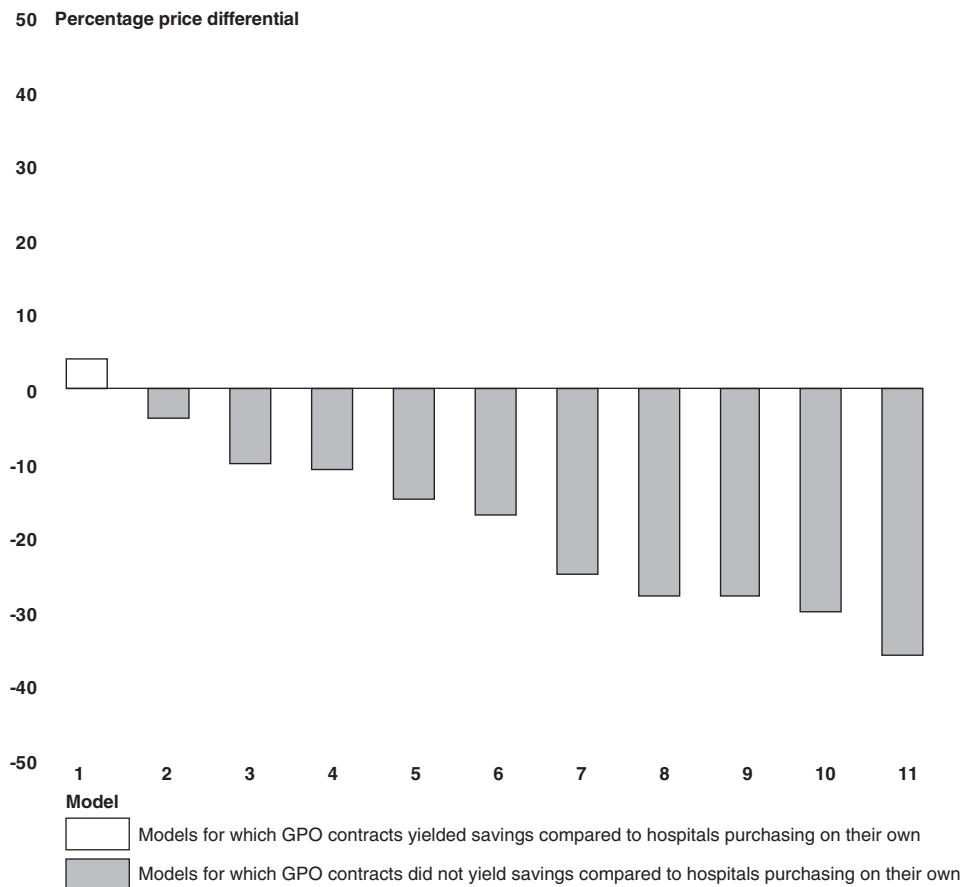
Source: GAO survey of hospitals in a greater metropolitan area.

As figures 3 and 4 show, the range of price savings or additional costs associated with GPO contracts was considerable. For example, for medium-sized hospitals, the median GPO-negotiated price was 39 percent lower for model 1 and 25 percent higher for model 25 than the median price paid by these hospitals purchasing on their own.

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**Figure 4: Differences between GPO Contract Prices and Non-GPO Contract Prices for 11 Pacemaker Models Purchased by Large Hospitals**



Note: Each bar refers to a different model of pacemaker. The length of the bar reflects the difference in the price paid by large hospitals using GPO contracts and the price paid by large hospitals not using GPO contracts to purchase the same model. Large hospitals are hospitals with 500 or more beds. Median prices were calculated and used in comparisons that included more than one GPO-negotiated price or hospital purchasing on its own.

Source: GAO survey of hospitals in a greater metropolitan area.

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Compared to Smaller GPOs, Use of Large GPOs Yielded Price Savings for Needles—Less Often for Pacemakers

The size of a GPO was not related consistently to whether a hospital, when using a GPO contract, obtained a better price. Whether use of large GPOs offered price savings varied by type of device: for safety needles, they were more likely to obtain better prices and for pacemakers, they were less likely to do so. Specifically, the median price paid by hospitals using a large

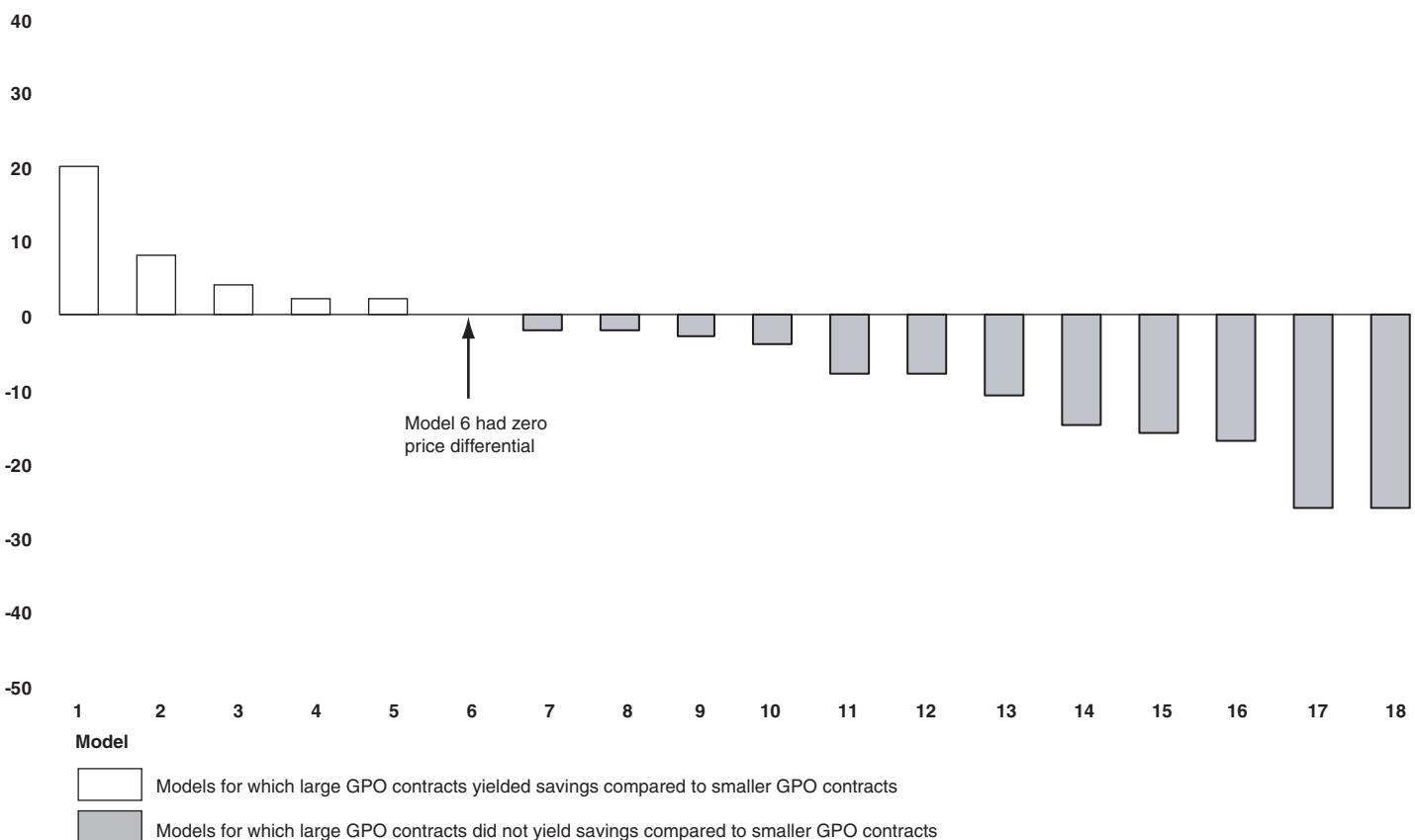
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GPO's contract to purchase safety-needles was nearly always lower—for 18 of the 19 types of needles we could compare—than the median price paid by hospitals using a smaller GPO's contract. For pacemakers, a large GPO's contract infrequently yielded better prices than smaller GPOs' contracts—for only 5 of the 18 pacemakers we could compare. In this case, the higher prices associated with most of these pacemaker purchases run counter to the expectation that large GPOs yield substantial price advantages. (See fig. 5.)

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**Figure 5: Differences in Median Prices between a Large GPO's Contracts and Other GPOs' Contracts for 18 Pacemaker Models**

50 Percentage price differential



Note: Each bar refers to a different model of pacemaker. The length of the bar reflects the difference in the price paid by hospitals using a large GPO's contract—one whose members purchase over \$6 billion per year with its contracts—and the price paid by hospitals using smaller GPOs' contracts to

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purchase the same pacemaker model. Median prices were calculated and used in comparisons that included more than one GPO-negotiated price or hospital purchasing on its own.

Source: GAO survey of hospitals in a greater metropolitan area.

Figure 5 shows that, as with the previous comparisons, the range of price savings or additional costs associated with large GPOs was wide. For hospitals using large GPOs' contracts to buy pacemakers, the median price paid ranged from 20 percent less for one model to 26 percent more for another, compared with the median price paid by hospitals using smaller GPOs' contracts.

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## Hospitals Rarely Purchased Selected Medical Devices from Small Manufacturers

Regardless of whether a GPO contract was used, hospitals bought pacemakers and safety needles predominantly from large manufacturers.<sup>15</sup> In our study, 5 of the 16 manufacturers from which hospitals purchased were small; however, purchases from these 5 represented a small minority of the models bought (1 of 121 pacemaker models and 22 of 196 safety needle models). Almost all purchases from small manufacturers in our pilot were made by hospitals buying on their own; only one hospital purchased from a small manufacturer using a GPO contract.

We could not determine the extent to which hospitals' reliance on large manufacturers of these two devices reflected hospital preference or the effects of GPOs' contracting practices, because almost all hospitals in our sample belonged to GPOs. Representatives from small manufacturers whom we interviewed stated that some incentives in GPO contracts penalize hospitals purchasing off-contract. However, hospital personnel whom we interviewed emphasized different factors as influencing their purchasing decisions, including clinical considerations for pacemakers and cost for safety needles. Seventy-one percent of hospitals purchased a pacemaker and 15 percent a safety needle outside of their GPO contracts.

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## Concluding Observations

While this is a pilot study based on one market, the data raise questions about one of the intended benefits from having large GPOs. In our study market, GPOs of different sizes realized comparable savings for member hospitals. Buying through a large GPO did not guarantee a hospital the

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<sup>15</sup>For our study, we defined small manufacturers of safety needles as those with 500 or fewer employees and small manufacturers of pacemakers as those with a market share of less than 10 percent.

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lowest prices. In fact, there were several instances in which individual hospitals using a large GPO's contracts paid prices that were at least 25 percent higher than prices negotiated by hospitals on their own, and smaller GPOs also sometimes offered better prices. Clearly, more evidence on GPOs and their effects is needed, since our data pertain to one urban market, two types of medical devices, eight GPOs, and 18 hospitals. To assist the Subcommittee, we plan to obtain data from a broader array of geographic areas and for other devices, hospitals, and GPOs. Gathering additional information on GPOs' benefits and possible drawbacks could inform an examination of antitrust policy toward GPOs.

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## **Contacts and Acknowledgments**

For more information regarding this statement, please contact Janet Heinrich at (202) 512-7114 or Jon Ratner at (202) 512-7107. JoAnne R. Bailey, Hannah F. Fein, Kelly L. Klemstine, and Michael L. Rose made key contributions to this statement.

# Characteristics Of Selected GPOs

The information in this appendix illustrates how GPOs in our study market vary in size, ownership structure, and profit status. The appendix contains information obtained both from GPO Web sites during April 2002 and through telephone interviews. We did not independently verify the information in this appendix. (See table 1.)

**Table 1: Characteristics of Selected GPOs in Our Pilot Study Market**

GPO	Current annual purchasing volume (in billions)	GPO's profit status	Owners of the GPO	Owners' profit status	Members/customers using GPO contracts	Miscellaneous features
Novation	\$17.6	For-profit	Novation is owned by VHA, a nationwide network of community-owned health care systems and their physicians, and UHC, an alliance of academic health centers.	VHA: for-profit, UHC: not-for-profit	Members include 2,300 not-for-profit hospitals and other health care sites.	Novation has a private label brand with over 250 product lines and over \$1 billion per year in sales.
Premier	14.0	For-profit	Premier is owned by 203 health care organizations that operate approximately 900 hospitals.	Not-for-profit	Members include over 1,800 hospitals and other health care sites.	The average of contract administrative fees paid to Premier is 2 percent.
AmeriNet	5.2	For-profit	AmeriNet is owned by AmeriNet Central, Intermountain Health Care, and Vector.	Intermountain Health Care: Not-for-profit. Profit status for AmeriNet Central and Vector was not readily available.	Members include 14,315 acute care hospitals and other health care sites.	Membership in AmeriNet grew by 3,172 new members in 2000. Many members are health care organizations other than hospitals. Amerinet has a private label brand.
HealthTrust	4.0	For-profit	HealthTrust is owned by HCA, Inc., LifePoint Hospitals, Triad Hospitals, and Health Management Associates.	For-profit	Members include 650 not-for-profit and for-profit acute care hospitals and other health care sites.	There is no membership fee for a member to belong to HealthTrust. HealthTrust does not allow members to belong to more than one GPO.

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**Appendix I**  
**Characteristics Of Selected GPOs**

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GPO	Current annual purchasing volume (in billions)	GPO's profit status	Owners of the GPO	Owners' profit status	Members/customers using GPO contracts	Miscellaneous features
InSource	3.0	For-profit	InSource is owned by MedAssets, a private purchasing and contract services company.	For-profit	Members include over 11,000 acute care hospitals and other health care sites.	MedAssets also owns Health Services Corporation of America, a national GPO.
Consortia	2.5	For-profit	Consortia is owned by 12 Catholic-sponsored, faith-based, not-for-profit health systems: Ancilla Systems, Ascension Health Systems, Catholic Health Initiatives, Hospital Sisters Health Systems, Ministry Health Care, Provena Health, Saint Clare's Health Services, Sisters of St. Francis, St. John Health System, Trinity Health - National Region, Wheaton Franciscan Services, Inc., and Via Christi Health Systems.	Not-for-profit	Members include 320 acute care hospitals and over 800 other health care sites.	Consortia seeks 85 to 90 percent voluntary compliance (buying through its contracts) from its members.
Broadlane	2.3	For-profit	Broadlane is owned by a mix of for-profit and not-for-profit organizations and individual investors. Information about each specific investor was not readily available.	For-profit and Not-for-profit	Customers include 476 acute care hospitals and 1,200 to 1,500 other health care sites.	Broadlane has two types of purchasing programs. Customers that buy through one program buy almost 80 percent of their goods and services through the GPO. The second program is supplemental, with more lenient contracting and buying requirements.

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**Appendix I**  
**Characteristics Of Selected GPOs**

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GPO	Current annual purchasing volume (in billions)	GPO's profit status	Owners of the GPO	Owners' profit status	Members/customers using GPO contracts	Miscellaneous features
HPPI	1.5	For-profit	HPPI is owned by VHA, a nationwide network of community-owned health care systems and their physicians, and UHC, an alliance of academic health centers.	VHA: for-profit, UHC: not-for-profit	Members include 998 acute-care facilities 5,022 other health care sites.	Agreements offered by HPPI are negotiated by Novation.  HPPI was created to enable VHA and UHC to market Novation agreements to health care organizations that do not belong to either VHA or UHC.

Note: Current annual purchasing volume was obtained from GPOs or their Web sites during April, 2002. The year that corresponds to a GPO's purchasing volume may differ by GPO; GPO Web sites often referred to this amount as the GPO's "current annual purchasing volume."

Source: GPO Web sites and GAO interviews with GPOs. Additional information was obtained from Modern Healthcare ([http://www.modernhealthcare.com/charts/gpo\\_chart.php3?id=1](http://www.modernhealthcare.com/charts/gpo_chart.php3?id=1)), accessed September, 2001.